

**FY 2005 President's Budget
Navy Working Capital Fund
Narrative Summary of Operation
Activity Group: Depot Maintenance/NAVAIRDEPOTs
February 2004**

ACTIVITY GROUP FUNCTION

To provide responsive worldwide maintenance, engineering, and logistics support to the Fleet and ensure a core industrial resource base essential for mobilization; repair aircraft, engines, and components, and manufacture parts and assemblies; provide engineering services in the development of hardware design changes, and furnish technical and other professional services on maintenance and logistics problems.

ACTIVITY GROUP COMPOSITION

<u>Activities</u>	<u>Location</u>
NAVAIRDEPOT, Cherry Point	Cherry Point, NC
NAVAIRDEPOT, Jacksonville	Jacksonville, FL
NAVAIRDEPOT, North Island	San Diego, CA

BUDGET HIGHLIGHTS

General

The Naval Air Depots (NAVAIRDEPOTS) provided significant support to Operation Iraqi Freedom and the Global War on Terrorism by overhauling and repairing a wide range of equipment and components on accelerated delivery schedules. This workload resulted in increased orders, revenue and costs over the levels projected in the FY 2004 President's Budget for FY 2003 and FY 2004. In FY 2005, workload and financial indicators are projected to return to normal.

FY 2003 includes the partial implementation of the Navy Marine Corps Intranet (NMCI) at the NAVAIRDEPOTS. The full cost of the NMCI demand model is reflected beginning in FY 2004. In addition, the NAVAIRDEPOTS have been budgeted to a zero AOR at the activity level in FY 2005.

Summary of Operations

(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Orders	2,415.2	1,868.5	1,990.2
Revenue	2,367.8	2,247.6	2,095.2
Cost of Goods Sold	2,278.1	2,208.1	2,162.0
Revenue less Costs	89.7	39.5	-66.8
Surcharges	-2.5	-0.7	-0.6
Net Operating Result (NOR)	87.2	38.8	-67.4
Accumulated Operating Result (AOR)	28.6	67.4	0.0

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Orders. New reimbursable orders for FY 2004 and FY 2005 are \$1.9B and \$2.0B respectively. FY 2004 new orders increased from the FY 2004 President's budget due to increases in the airframes, engines, and modification programs.

Revenue. Revenue is \$2.2B for FY 2004 and \$2.1B for FY 2005. The FY 2004 estimate is \$302M above the President's Budget as a result of increased workload in support of Operation Iraqi Freedom and Operation Enduring Freedom. The FY 2005 revenue estimate has been decreased by \$67.4M to achieve a zero AOR.

Costs. Cost of Operations is \$2.2B in FY 2004 and \$2.2B in FY 2005. The increase in FY 2004 from the FY 2004 President's Budget is attributed to the increased workload in support of Operation Iraqi Freedom and Operation Enduring Freedom.

Revenue less cost. Revenues less cost for FY 2004 and FY 2005 is \$39.5M and \$-66.8M respectively. The FY 2005 revenue less cost is reflective of the rate adjustment necessary to achieve a zero AOR in the rate setting year.

Stabilized Customer Rates

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Composite Hourly Rate	\$164.98	\$161.06	\$165.99
Percent Year to Year Change		-2.37%	3.06%

Performance Indicators

<u>Schedule Conformance</u>		(UNITS)		
	Goal	FY 03	FY 04	FY 05
Aircraft Scheduled		478	575	662
Aircraft Completed on Time		430	518	596
% Scheduled Work Completed on Time	*90%	0.90	0.90	0.90
Components Scheduled		156,518	120,422	128,156
Components Completed on Time		148,692	114,401	121,748
% Scheduled Work Completed on Time	95%	0.95	0.95	0.95
Engines Scheduled		1,218	1,156	1,335
Engines Completed on Time		1,181	1,121	1,295
% Scheduled Work Completed on Time	97%	0.97	0.97	0.97

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*The percentage of airframes completed on time is dependent on time and number of inductions in a fiscal year			
	FY 03	FY 04	FY 05
Material Costs of Good Sold	1,019	960	897
Average Inventory	274	285	270
Inventory Turnover Ratio	4	3	3
Inventory Turnover Ratio - This is a measure of inventory utilization. The goal is to reduce the investment in inventory while still meeting the depot requirements for readily available material. By taking the quotient in inventory while still meeting the depot requirements for readily available material. By taking the quotient of projected yearly Cost of Goods Sold divided by Inventory, inventory turnover can be determined. The higher the ratio, the more rapidly inventory is being used to meet production requirements.			

Unit Cost Goals

The budget reflects the following FY 2003-2005 unit cost goals:

	(\$ and DLHs in Millions)		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Total Operating Cost	\$2,173.09	\$2,149.26	\$2,076.84
Direct Labor Hours (DLH)	12.728	13.034	12.430
Unit Cost	\$170.73	\$164.90	\$167.08
% Change Workload/DLHs	-	2.4%	-4.6%
% Change Unit Cost	-	-3.4%	1.3%

- DLH includes direct labor hours worked by civilians, contractors and military personnel.

Net Outlays

	(Dollars in Millions)		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Collections	2,344.2	2,135.9	2,006.7
Disbursements	2,200.4	2,133.4	2,061.4
Net Outlays	(143.8)	(2.4)	54.7

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SUMMARY OF PERSONNEL RESOURCES.

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Civilian Personnel:			
End Strength	11,145	11,042	11,101
FTE Workyears	10,789	10,989	11,062
Military Personnel:			
End Strength	101	126	124
Workyears	99	126	124
Contractor Personnel:			
Workyears	714	1,158	1,157

The increase in civilian personnel in FY 2004 over the FY 2004 President's Budget reflects civilian workforce levels necessary to accommodate firm workload without the use of excessive overtime. Contract personnel are used by the NAVAIRDEPOTS to support perturbations in workload.

Summary Of Capital Purchases Program (CPP):

(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Equipment-non ADPE &TELECOM	33.525	23.016	25.269
Minor Construction:	3.170	4.841	6.234
Equipment-ADPE &TELECOM	9.129	3.350	0.000
Software Development	5.072	10.586	0.000
Total	\$50.896	\$41.793	\$31.503